

Message Text

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ACTION SS-25

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC IMMEDIATE 5129

C O N F I D E N T I A L CAIRO 9356

EXDIS

E.O. 11652: GDS

TAGS: PFOR, EG, US, IMF

SUBJECT: ASSISTANCE TO EGYPT: IMF PROGRAM

REF: STATE 169778

1. AS DEPT AWARE, WE HAVE FOR SOME TIME BEEN REPORTING
EROSION OF PROPOSED IMF PROGRAM AS A RESULT OF IMMEDIATE
AND PRACTICAL POLITICAL, ECONOMIC AND FINANCIAL PROBLEMS
CONFRONTING GOE. (SEE, FOR EXAMPLE, CAIRO'S 8210, 8765,
6748). REASONS FOR THIS ARE SIMPLE EVEN IF REGRETTABLE.

(A) FIRST, GOE CONTINUES TO BE FACED WITH HAVING TO
MEET SHORT TERM OBLIGATIONS AND LACKS FUNDS TO DO SO.

(B) SECOND, WITH AN ELECTION COMING UP IN WHICH FOR THE
FIRST TIME A "MARXIST/NASSERIST" SLATE IS COMPETING
AGAINST GOVERNMENT CANDIDATES, THERE IS GREAT EDGINESS
ABOUT ANY GOE ACTIONS THAT PROMISE FURTHER TO INCREASE COST
OF LIVING. RISING COST OF LIVING IS PROBABLY GREATEST
SINGLE COMPLAINT IN EGYPT TODAY AND PERMEATES
EVERY SECTOR OF THE POPULATION, INCLUDING MILITARY. NO
POLITICIAN WANTS TO TAKE RESPONSIBILITY FOR FURTHER
INCREASES IN COST OF LIVING AS IMF RECOMMENDATIONS,
EVEN AS REVISED, WILL GENERATE AND MOST GOE CABINET
MINISTERS ARE POLITICIANS. PRIMIN, IT SHOULD BE
RECALLED, IS HEADING GOVERNMENT SLATE WHICH IS UP FOR
REELECTION.

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(C) THIRD, SHAFEI HAS AGAIN PROVED TO BE WELL MEANING, BUT TOTALLY INCAPABLE OF SEEING TO PRIMIN HIS CASE ON THE NEED FOR IMF RECOMMENDATIONS TO BE ACCEPTED. SHAFEI AND ABU ISMAIL ARE VERY MUCH AT ODDS AND ABU ISMAIL, AS A POLITICIAN, HAS OUTMANEUVERED SHAFEI.

2. I DOUBT THAT, IN THIS ELECTION YEAR--AND I BELIEVE WE HAVE SOME UNDERSTANDING OF PROBLEMS OF AN ELECTION YEAR--GOE AT TOP LEVELS IS LIKELY TO AGREE TO REVISED IMF REFORM PACKAGE. GUNTHER MIGHT MAKE A TRY, BUT I BELIEVE HIS AND DICKY'S BEST BET IS TO DEVOTE THEIR EFFORTS TO PREVENTING FURTHER EROSION OF IMF PACKAGE. (FYI DICKY ACKNOWLEDGES GUNTHER AND HE EARLIER MADE MISTAKE OF ACCEPTING SHAFEI'S FIRM STATEMENT THAT LATTER WOULD INSURE COMPENSATORY FUNDS BE RESERVED FOR COMMERCIAL MARKET AND DID NOT THEREFORE DISCUSS THE SUBJECT WITH ABU ISMAIL, WHO ULTIMATELY DISPOSED OF THEM APPARENTLY WITHOUT SHAFEI'S KNOWLEDGE.) IF PROBLEM BROUGHT TO SADAT, HE WILL GIVE LIP SERVICE TO NEED FOR ECONOMIC REFORM, BUT INSISTE THAT BURDEN OF HIGH PRICES MUST NOT BE BORNE BY LOW INCOME CLASSES. AT THAT POINT IT BECOMES THE USUAL A GRAB BAG WHAT SHOULD BE EXCLUDED FROM IMF PROGRAM.

3. RE PARA 6 REFTTEL, I WILL MAKE POINTS CITED THEREIN TO BOTH SHAFEI AND ABU ISMAIL EARLY NEXT WEEK. SHAFEI IS STILL IN ALEXANDRIA AND I UNDERSTAND ABU ISMAIL HAS ALSO BEEN SUMMONDED THERE. ABU ISMAIL AND SHAFEI WILL DOUBTLESS ASK ME ABOUT RESULTS OF THE REPRESENTATION WHICH WE PROMISED MAKE AT OECD ECONOMIC MEETINGS IN PARIS AS PART OF SEVEN-POINT PROGRAM. (REPLY TO CAIRO'S 8800 WOULD BE HELPFUL.) I WILL ALSO SEEK OPPORTUNITY MAKE POINTS TO PRIMIN, BUT AS DEPT AWARE THAT IS A BIT LIKE PUNCHING A PILLOW.

4. IBRD TEAM EXPECTED NEXT WEEK MIGHT ALSO BE URGED REINFORCE IMF AND OUR REPRESENTATIONS.

5. FINALLY, WE MIGHT WISH TO WEIGH THE DESIRABILITY OF A LETTER FROM A TOP LEVEL USG OFFICIAL, SAY, DEPUTY SECRETARY ROBINSON TO PRIMIN MAMDUH SALEM EXPRESSING CONCERN OVER EROSION OF THE CONFIDENTIAL

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PROPOSED IMF PROGRAM. ADVANTAGE OF THIS WOULD BE THAT GOE WOULD AGAIN BE REMINDED OF HIGH LEVEL USG INTEREST IN IMF/GOE AGREE-MENT. DISADVANTAGE IS IT WOULD AFFORD GOE NEW OPPORTUNITY RAISE AT HIGH LEVEL NEED FOR MORE VIGOROUS USG EFFORTS TO OBTAIN DONOR HELP. RESULT WOULD BE MEXICAN STANDOFF. APART FROM THAT, I MUST FRANKLY STATE THAT I SEE LITTLE POSSIBILITY THAT GOE WILL CHANGE ITS POSITION BETWEEN NOW AND ITS ELECTIONS IN AUGUST/SEPTEMBER. HENCE, PROSPECTS OF SUCH

A LETTER FROM THE DEPUTY SECRETARY CHANGING SITUATION
ARE NOT OVERLY PROMISING.

6. WE HAVE BEEN IN TOUCH WITH DICKEY TODAY (SEPTTEL) AND
WILL CONTINUE TO CONSULT WITH HIM HOW WE MIGHT BE HELPFUL.
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